



FREQUENTLY ASKED

QUESTIONS

on Round III Empowerment Zones (EZs) and Renewal Communities (RCs)

Question 1: Will there be a Round III of Empowerment Zones? What about Renewal Communities?

Answer: The Omnibus Consolidation & Emergency Supplemental Appropriations Act for FY 2001 (P.L. 106-554), signed into law on December 21, 2000, enacted the provisions of a number of bills of the 106th Congress. Among them was the Community Renewal Tax Relief Act of 2000 (CRTR Act), which authorizes the designation of 9 new Empowerment Zones (EZs - 7 urban and 2 rural) and 40 Renewal Communities (RCs - 28 urban and 12 rural). In April 2001, HUD and USDA will invite urban and rural communities, respectively, to apply for the EZ designations. In this same timeframe, HUD will invite communities to apply for RC designation, and current EZs and ECs will be given preference for the first 20 of these designations. Designations of the EZs and RCs will be announced prior to January 1, 2002 and will be effective through 2009.

Question 2: Will the Round III EZs or the RCs receive any grants?

Answer: The Community Renewal Tax Relief Act (CRTR Act) authorized funding to the 15 Round II EZs, but did not authorize any funding for the Round III EZs and Renewal Communities (RCs). Funding for Round III EZs and RCs through future legislation is a possibility, but this should not be a consideration for determining whether or not to apply for a Round III EZ or RC designation. Rather, consideration should be given to the fact that tax incentive benefits associated with the Round III EZ and RC competitions are considerable. Another advantage associated with the RC Initiative is HUD's commitment to provide technical assistance to designated communities to successfully implement their course of action. For more details on the available tax incentives, see the answer response to Question #3. The legislation is available on the Internet at: <http://waysandmeans.house.gov/fullcomm/106cong/comrenew/hr5662.pdf>.

Question 3: What benefits will be available for Renewal Communities and Round III Empowerment Zones?

Answer: Renewal Communities will be eligible for the following benefits:

1. A zero-percent rate for capital gains from the sale of qualifying assets;
2. A wage credit for employers of fifteen (15%) percent for the first \$10,000 of qualified wages;
3. "Commercial Revitalization Deduction" that allows taxpayers to deduct either:
 - a. qualifying expenditures for the taxable year in which a qualified building is placed in service, or
 - b. all of the qualifying expenditures, allowable ratably over a 10-year period beginning with the month in which such building is placed in service;
4. An additional \$35,000 of Section 179 expensing for qualified property; and
5. Expansion of the Work Opportunity Tax Credit with respect to individuals who live in a Renewal Community.

ROUND III EMPOWERMENT ZONES WILL BE ELIGIBLE TO RECEIVE THE FOLLOWING BENEFITS:

1. Use of the EZ employment credit, which allows EZ businesses to claim a credit of as much as \$3,000 per qualified EZ employee each year;
2. Increased expensing (up to \$35,000 from \$20,000) under Section 179 of the Internal Revenue Code. EZ businesses can claim this deduction on depreciable property such as equipment and machinery;
3. Higher limits on tax-exempt EZ facility bonds (\$130 million available from 2002 through 2009);
4. Non-recognition of gain on roll-over of EZ investments and increased exclusion of gain on the sale of EZ stock;
5. Use of the Work Opportunity Tax Credit, assuming Congress extends this credit beyond 2001. This is a credit up to \$2,400 against Federal taxes for businesses for each new hire from groups that have high unemployment rates or other special employment needs;
6. Use of Qualified Zone Academy Bonds (QZABs), which school districts with low-income populations use to save on interest costs associated with financing school renovations and repairs as well as investing in equipment and up-to-date technology;
7. Use of the Welfare to Work Tax Credit, assuming Congress extends this credit beyond 2001. This is a two-year credit against Federal tax liability for businesses that hire long-term welfare recipients. This credit is up to \$3,500 in the first year and \$5,000 in the second year for each new hire; and
8. Possible preferential consideration for benefits under Federal programs that have given preferential consideration to EZ applicants, including the Weed and Seed Program (Department of Justice), Youthbuild (HUD), 21st Century Community Learning Centers (Department of Education), One-stop Capital Shops (Small Business Administration), and Youth Opportunity Grants (Department of Labor).

HUD staff will notify the RCs and EZs of funding opportunities that become available for their communities and the staff will include all RCs and EZs in monthly conference calls to discuss and share ideas, problems and visions for community revitalization. These calls frequently include guest speakers from cities and non-profit organizations to share strategies on maximizing tax benefits and other resources that are available to underserved communities.

Question 4: How do I obtain application materials to apply to become an RC or EZ?

Answer: Interested parties can call Community Connections at 1-800-998-9999 to order application materials which will be available in hard copy by mid-May. In addition, materials will be posted as soon as available on the urban EZ/EC web site at www.hud.gov/offices/cpd/ezec. Parties interested in information or materials regarding the rural EZ/EC program can visit the rural EZ/EC website at www.ezec.gov/round3.

Question 5: How do I obtain a copy of the legislation authorizing Round III?

Answer: On December 15, 2000, the Joint Committee on Taxation published a summary of the Community Renewal Tax Relief Act of 2000 and it is available on the Internet at <http://www.housingonline.com/x-112-00.pdf>. The legislation that authorizes the designation of 9 new Empowerment Zones and 40 Renewal Communities is available at <http://waysandmeans.house.gov/fullcomm/106cong/comrenew/hr5662.pdf>.

Question 6: Can an urban community having an EZ or EC designation apply for a Renewal Community designation without losing its EZ/EC designation?

Answer: A community with an EZ or EC designation may apply for an RC designation without losing its EZ/EC status so long as its nominated area for RC designation does not include any census tracts that are in its EZ/EC designated area.

Question 7: What are the eligibility criteria for the new Empowerment Zones and Renewal Communities?

Answer: The eligibility criteria for the new Round III EZs are the same as for the Round II EZs (see 24 CFR Part 598, U.S. Dept. of HUD, Designation of Urban Empowerment Zones Interim Rule; Notice, appearing in Volume 63 of the Federal Register, No. 73, 4/16/98). The detailed criteria are available for viewing on the Internet at http://www.access.gpo.gov/nara/cfr/waisidx_99/24cfr598_99.html. The following are highlights of these criteria for Round III EZs:

A nominated urban area is eligible for designation if the area:

1. Has a maximum population that is the lesser of:
 - a. 200,000; or
 - b. The greater of 50,000 or 10% of the population of the most populous city located within the nominated area;
2. Is one of pervasive poverty, unemployment and general distress;
3. Does not exceed 20 square miles in total land area, excluding up to three noncontiguous developable sites that are exempt from the poverty criteria;
4. Has a continuous boundary, or consists of not more than three non-contiguous parcels meeting the poverty criteria, and not more than three non-contiguous developable sites exempt from poverty rate criteria;
5. Is located in no more than two contiguous States; and
6. Does not include any portion of a central business district, unless the poverty rate for each census tract is not less than 35%.

The area and eligibility criteria for the Renewal Communities are found in Title I, Subtitle A of the Community Renewal Tax Relief Act of 2000, which is available in its entirety for viewing on the Internet at <http://waysandmeans.house.gov/fullcomm/106cong/comrenew/hr5662.pdf>. The following are highlights of these criteria:

A nominated area meets the area requirements if:

1. The area is within a jurisdiction of one or more local governments;
2. The area has a continuous boundary; and
3. The area generally has a population of not more than 200,000 and at least 4,000 if any part of the nominated area is in an MSA having a population of at least 50,000 and 1,000 in any other case.

A nominated area meets the eligibility requirements if the State and local governments in which it is located certify in writing (and the Secretary of Housing and Urban Development, after such review of supporting data as he deems appropriate, accepts such certification) that –

1. The area is one of pervasive poverty, unemployment, and general distress;
2. The unemployment rate in the area, as determined by the most-recent available data, was at least 1 ½ times the national unemployment rate for the period to which such data relate;
3. The poverty rate for each population census tract within the nominated area is at least 20 percent; and
4. In the case of an urban area, at least 70 percent of the households living in the area have incomes below 80 percent of the median income of households within the jurisdiction of the local government (determined in the same manner as under section 119(b)(2) of the Housing and Community Development Act of 1974).

CONSIDERATION OF OTHER FACTORS – The Secretary of Housing and Urban Development, in selecting any nominated area for designation as a renewal community under this section – shall take into account –

1. The extent to which such area has a **high incidence of crime**, or
2. If such area has census tracts identified in the May 12, 1998 report of the General Accounting Office (GAO) regarding the identification of economically distressed areas.

Question 9: Will HUD review my RC or EZ proposal and tell me how to strengthen it?

Answer: HUD will offer five regional workshops beginning in mid-May 2001 through the middle of June in order to provide guidance on RC and Round III EZ applications and procedures. Communities can also contact a HUD Community Builder in their area for technical assistance. Community Builders are listed on the urban EZ/EC website at www.hud.gov/offices/cpd/ezec.

Question 10: Why are there no ECs in Round III?

Answer: Congress did not authorize Enterprise Communities for Round III.

Question 11: Can my community get a copy of successful Round II Empowerment Zone applications to help us prepare a Round III application?

Answer: The urban EZ/EC website has a Resource Center menu option through which interested parties can view successful Round II urban EZ applications. The urban EZ/EC website is at www.hud.gov/offices/cpd/ezec.